GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1413
ANSWERED ON:02.03.2001
FINANCIAL SCAM BY THE FINANCIAL INSTITUTIONS
ANANTRAO GUDHE

Will the Minister of FINANCE be pleased to state:

(a) whether the Government have reviewed the progress of investigation into the financial scams committed by plantation companies during the past three years;

(b) if so, the details thereof plantation company-wise;

(c) the details of long term policy proposed by the Government to deal with the problem and recurrance of such scams in plantation companies; and

(d) the steps taken/proposed to deal with the financial frauds committed by Non-Banking financial companies allover the country and particularly in Maharashtra?

Answer

MINISTRY OF STATE IN THE MINISTRY OF FINANCE (BALASAHEB VIKHE PATIL)

(a), (b) & (c) : The Securities and Exchange Board ofIndia (SEBI) regulates Collective Investment Schemes (CISs) through which investments are sought for agro, plantation etc. related instruments. A special audit of top 53 CIS entities was ordered in January, 1998. Another two entities were audited pursuant to court orders. Further, inspection of another 12 entities was conducted by SEBI. The findings of audit report revealed large scale diversion of funds to activities unrelated to the schemes; a large portion of the money raised has been spent towards the cost of mobilisation of funds etc. Under the SEBI (Collective Investment Schemes) Regulations, 1999 which were notified in October, 1999, no existing CIS entity can launch anynew scheme or raise money from investors even under existing schemes, unless a certificate of registration is granted to it by SEBI.
SEBI has sent individual letters to all CISentities which did not file applications for registration with SEBI, advising them to wind up their schemes and repay their investors. Notices were also issued to those CIS bodies which failed to do so, toshow cause why action should not be initiated against them.

SEBI has recommended initiation of liquidation proceedings against 605 CIS entities.

(d) A comprehensive regulatory framework has been put in place which is aimed at protecting the interests of depositors and ensuring that non-banking financial companies (NBFCs) function on sound and healthy lines.The regulatory framework includes, inter-alia, compulsory registration, maintenance of liquid assets, transfer of at least 20% of net profits to reserve fund and empowering RBI to issue directions to NBFCs. RBI takes various actions against errant NBFCs forvarious defaults and contravention of provisions of the RBI Act and directions issued thereunder. Governmenthas recently introduced a Bill in the Lok Sabha whichis expected to provide better safeguards to the depositors of NBFCs.